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FM AMEMBASSY DAMASCUS
TO RUEHC/SECSTATE WASHDC IMMEDIATE 6610
INFO RUEHEE/ARAB LEAGUE COLLECTIVE IMMEDIATE
RUEHTV/AMEMBASSY TEL AVIV IMMEDIATE 0714
RUEATRS/DEPT OF TREASURY WASHDC IMMEDIATE
RHMFISS/HQ USCENTCOM MACDILL AFB FL IMMEDIATE
RHEHNSC/NSC WASHDC IMMEDIATE
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C O N F I D E N T I A L SECTION 01 OF 02 DAMASCUS 000197

SIPDIS

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NEA/ELA
TREASURY FOR GLASER/SZUBIN/LEBENSON
NSC FOR ABRAMS/DORAN/SINGH
EB/ESC/TFS FOR SALOOM

E.O. 12958: DECL: 01/18/2016
TAGS: [EFIN](#) [ECON](#) [EINV](#) [SY](#)
SUBJECT: SLOW REFORMS, POLITICAL UNEASE: BANKS SEEK TO
LIMIT THEIR RISK

REF: A. DMS 5285
[1](#)B. DMS 6131
[1](#)C. DMS 4977
[1](#)D. DMS 0005

Classified By: Charge d'Affaires Stephen Seche, reasons 1.4 b/d

[1](#)1. (C) Summary: Syria's private banking sector continues to expand modestly, with two new banks beginning operations and the established banks opening new branches. However, contacts report that the SARG's erratic pace of reform has caused private banks to adopt conservative business plans that limit their exposure to risk. In the near term, private banks seem content to build market share in Syria's virgin financial market in the expectation of future profits. End summary.

Banks Continue to Expand ...

[1](#)2. (SBU) Syria's private banking sector continues to grow, with Lebanon-based Byblos Bank quietly beginning operations in temporary facilities in December, and Jordan-based Arab Bank opening its first branch in Damascus to great fanfare on January 2, 2006. The two additions bring the total number of private banks operating in Syria to six, while the banks already in the market report that they are opening new branches. Bank Audi Syria, which opened its first branch 80 days ago, is set to open its headquarters in downtown Damascus before the end of January, and expects to open five branch offices throughout Damascus by February. Bank BEMO Saudi Fransi also has plans for physical expansion throughout 2006, projecting ten branches before the end of the year including two in Idlib and Dar'a, outside of the major metropolitan areas.

[1](#)3. (SBU) In addition to new offices, all of the private banks report a continued increase in the volume of deposits from Syrian customers. Bank of Syria and Overseas (BSO), whose parent company is the large Lebanese BLOM Bank, closed the year with the equivalent of 21 billion Syrian pounds (SYP) (\$382 million USD) in deposits, up from just over 12 billion SYP in June 2005. Basel Hamwi, the General Manager of Bank Audi Syria, stated that his bank was able to attract approximately 1.5 billion SYP (\$27 million USD) in deposits in its first 80 days, which totals half of what BSO received over its first year. Walid Abdel Nour, Executive General

Manager for Byblos Bank Syria, expects that his bank and other new entrants will have a similar experience, since the sector's current total capitalization of just over \$300 million USD is insufficient to meet demand among Syrian depositors.

¶4. (SBU) While all private banks lost money in 2004, some realized modest profits in 2005 mostly through non-interest revenue on the sale of Letters of Credit to importers, Letters of Guarantee and Promissory Notes to borrowers, and transaction fees on remittances. In addition, banks are making a spread of 1.5% interest on their deposits denominated in foreign currency that are invested in foreign banks and mutual funds, and 4% on loans denominated in SYP. According to George Sayegh, General Manager of BSO, his bank reported a profit for the first time in 2005 of 155 million SYP (\$2.8 million USD), which equals a return on equity of approximately 12%. (Note: According to contacts, the SARG has loosened one of its restrictions on foreign exchange and now allows banks to invest 100% of their deposits denominated in foreign currency overseas. This represents a significant source of revenue for BSO, for instance, which reported in December that 64% of its deposits were denominated in foreign currency, up from 35% in March. End note.)

... While Limiting Exposure to Risk

¶5. (C) Contacts in the banking community complain, however, that there remain significant institutional and regulatory barriers that prohibit Syrian banks from realizing larger profits (ref A). These contacts uniformly display a lack of

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confidence in the short-term prognosis for reform. Hamwi, who also acts as an informal advisor on monetary issues to Deputy Prime Minister for Economic Affairs, Abdallah Dardari, stated that the momentum for reform has screeched to a halt due to a combination of international pressure, rumors of a cabinet shuffle and disagreements over priorities among the various ministries. He added that while he is optimistic that the SARG will pass a basket of reforms in the mid-term (e.g. five years), he does not expect meaningful change over the next two years.

¶6. (C) Other contacts state that the SARG's penchant for often contradicting announcements of reform with regressive action (ref B) is causing banks to adopt business plans that are ultra-conservative. George Sayegh, whose total loans at the end of 2005 accounted for only 18% of deposits, said that BSO will maintain a low ratio of loans to deposits until reforms solidify and Syria has a credit bureau to assess risk, an insurance sector to provide credit insurance, and an efficient judicial system to enforce contracts. A contact in Bank Byblos Syria's upper management said that the bank had planned to enter the market with a more aggressive strategy to invest in longer-term initiatives, but adopted a conservative business plan after entering the market because of the SARG's often contradictory actions. Abdel Nour added that Byblos is holding off plans to increase its capital to \$100 million USD until September 2006, when it can reassess the economic and political situation. He continued that even his customers are showing a lack of faith in the future of the economy by refusing to make long-term deposits due to lingering concerns that the SYP again will devalue precipitously as it did in the fall of 2005 (ref C).

¶7. (SBU) Comment: The private banks in Syria have adopted a long investment timeline. The banks' mostly Lebanese-based parent companies know how to manage risk and are no strangers to political instability, having made money during the Lebanese civil war. They are attracted by the growth potential in the Syrian market and are willing to endure short-term losses in order to be in a position to profit in the long-term. In this way, the Syrian private banks are

like the Gulf investors who are buying real property in Syria
now so that they are positioned to profit from Syria's
"virgin" tourist industry in the future (ref D).

SECHE